For professional advisers only

Rathbone Unit Trust Management

Rathbone Luxembourg Funds SICAV

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Rathbones
Look forward

Rathbone SICAV Global Opportunities Fund

Monthly update February 2022

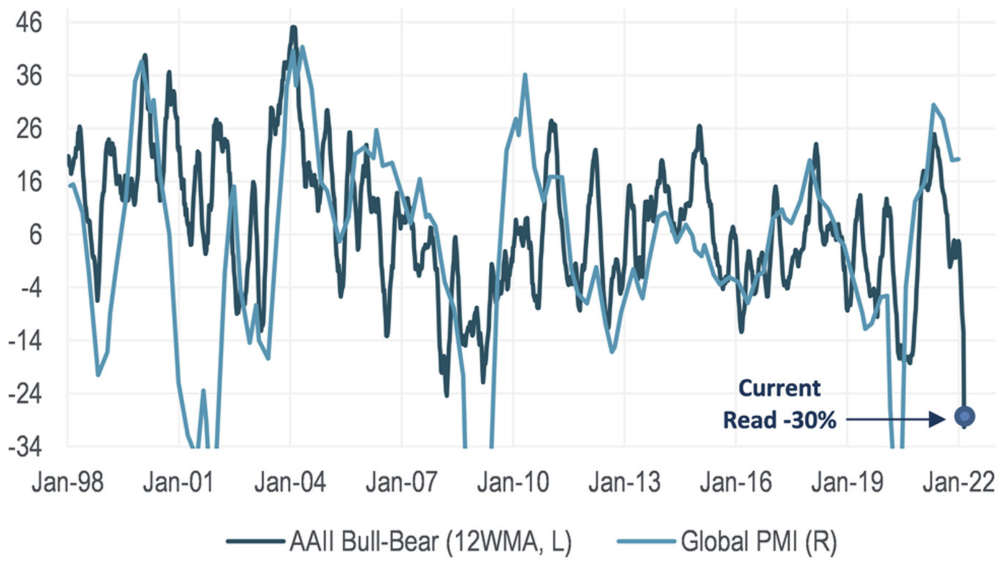
In February your fund dropped 2% versus a 1.9% average fall in the IA Global sector. Year-to-date, the fund is down 15.0%.

Russia's invasion of Ukraine could be the most important geopolitical event since the fall of the Berlin wall and one of the greatest tragedies of our lifetimes. Your fund has no direct exposure to Russian equities, but the inflationary shock from higher commodity prices will have an impact on all of the world's stock markets. It will also complicate the picture for central bankers, who are trying to engineer a soft landing in response to the late-pandemic inflationary surge.

Like many investors, we are shocked at this unnecessary and unjust war, but we worry that far too many investors are still too complacent around an expedited outcome. Many experts believe that the goal of Russian President Vladimir Putin is regime change, with reconstruction of a new Russian empire (lite). If this really is his goal, the zone of potential agreement between him and the West is difficult to see.

Despite the risk of geopolitical escalation, markets have front loaded a lot of the pain. We're already in a bear market and the mood of investors is already as glum as it was at the bottom in March 2009 and March 2020.

Investors are as worried as they've ever been



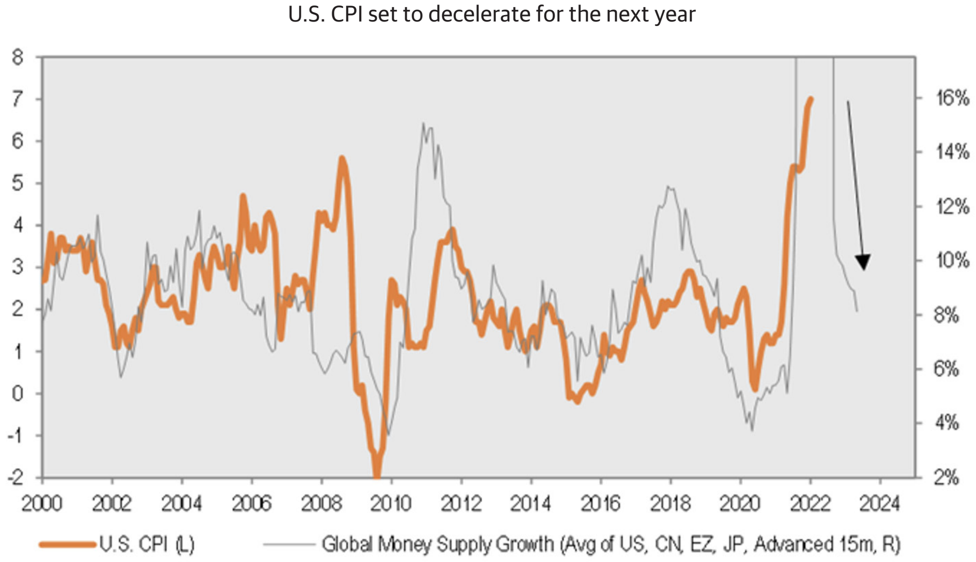
Source: Piper Sandler

The mild S&P 500 drawdown year-to-date (roughly -12%) leads many to believe that the market needs to fall further to incorporate how the world has changed. But this index is somewhat of a bad barometer as it belies the fact that the average stock was down 22%, the average Russell stock was down roughly 40% and the average Nasdaq stock was down about 50%. The inflation outlook has been made worse by the recent jump in oil, gas, wheat and other commodity prices, but significant tightening has already been transmitted as the key 30-year US mortgage rate rose to 3.69% – its highest level since January 2020.

US mortgage rates return to pre-pandemic levels

We will likely see American CPI inflation hit 8% in early March, but expectations are starting to bake in acknowledgement that oil could hit $150 in a temporary price shock. Any stabilisation of tensions will meet much easier year-on-year inflation comparisons in April/May as the base effects of last year's inflation data drop out. This could create a dramatic drop in the inflation rate… but it's a chart that no one wants to believe. Global money growth is leading by 15 months against US CPI – if this holds, we're likely at *the* peak of inflation in the U.S.

Money growth and inflation – what goes up…



Source: Cornerstone Macro

The main pressure point for stock prices has been a drop in PEs; earnings, in the main, are growing well. Why are PEs down? According to the strategist at Cornerstone Macro, there are five major macro influences on PEs this year and they've all been negative. As one or more of these forces change direction, the market is more likely to rebound:

1. **Higher 10-year interest rates**
2. **Higher oil prices**
3. **Greater Fed tightening expectations**
4. **Falling PMIs**
5. **Higher inflation (CPI)**

Valuation-led bear markets (i.e., fear and uncertainty) tend to see V-shaped rebounds. We could see a whipsaw rebound so fast and furious – even in the midst of conflict – that many investors won't have the chance to react and will then be paralysed as they wait for another dip. We have started adding to our holdings in the portfolio – not across the board as we did in the first COVID-19 lockdown, but selectively, in companies with low-beta business models that have become the highest beta stocks.

James Thomson
Lead Fund Manager

Sammy Dow
Fund Manager

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Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

This fund is actively managed. This is a marketing communication. Please refer to the prospectus of the UCITS and the KIID before making any final investment decisions.

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